WORLD CHRONICLE

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PROGRAMME: **"WORLD CHRONICLE"**

GUEST: Mr. Caio Koch-Weser, Vice President of the World Bank for the Middle East and North Africa

JOURNALISTS: Ricardo Alday, Mexican News
Judy Lessing, Radio New Zealand
Walter Pfaeffle, Kuwait News Agency

MODERATOR: Michael Littlejohns

SYNOPSIS

WORLD BANK FOR THE MIDDLE EAST AND NORTH AFRICA

Caio Koch-Weser, Vice President of the World Bank for the Middle East and North Africa, elaborates on how the world's largest lending body works with countries in the Middle East and North Africa on issues vital to sustaining economic growth, social development and environmental protection. He believes that domestic reforms, foreign aid, and political stability are required ingredients for achieving long term economic and development objectives.

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Executive Producer: Kamil Taha
Director: Livingston Hinckley
Production Assistant: Sheila Poinesette

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VOICE: From United Nations Headquarters in New York, this is **WORLD CHRONICLE**, an unedited interview programme about major global issues. Here now to introduce our guest is the host of today's **WORLD CHRONICLE**.

LITTLEJOHNS: I'm Michael Littlejohns and this is **WORLD CHRONICLE**.

In recent years, concepts such as sustainable economic growth, reduction of poverty, and safeguarding the environment have become dominant themes in shaping the world's economic strategies for the 1990s and beyond. But how can these objectives best be integrated into specific country and regional programmes?

A recently published report by the World Bank, the world's largest multilateral lending body outlines its activities in these fields. Our guest today is a prominent economist with special interest in north Africa and the Middle East. He is Caio Koch-Weser, Vice President of the World Bank for the Middle East and North Africa. A national of Brazil, Mr. Koch-Weser will be interviewed here at United Nations Headquarters in New York by Ricardo Alday of the Mexican News Agency, Judy Lessing of Radio New Zealand, and Walter Pfaeffle of the Kuwait News Agency.

Mr. Koch-Weser, welcome to **WORLD CHRONICLE**. Mr. Vice President, the World Bank has been accused by some developing countries of exacting too onerous conditions for its loans. Even at the risk of social upheaval in some countries. How valid are these criticisms? I appreciate that one doesn't expect one's bank manager to be a particularly kind person, but is the World Bank perhaps a little too strict?

KOCH-WESER: Let me first say I welcome the opportunity to join you this morning and to debate with you and your colleagues some of the what I believe are fundamental economic and social challenges facing the Middle East and north Africa region. Your question, let me illustrate using some examples in the Middle East. When you say that we impose too onerous a burden, let's ask what is required in order to get sustained economic development in the Middle East, where the 1980s have been a decade of stagnation. The conditions we impose, the way you call them, are really conditions that have to be created in order to ensure for the future, growth and social progress, which has been lacking in the Middle East. And it is only those countries who own the programmes, who develop the programmes, and know what the constraints are, and also what the social hardships are that they have to go through in order to return to a path of sustained growth, in the end will be successful. We see ourselves as close partners in that. The most successful programmes -- take Morocco, take Tunisia, in the region -- are programmes where governments have developed them, where governments fully own them, and where we have been close partners. So it is that what makes programmes succeed and not externally imposed conditionality.

LITTLEJOHNS: Where does the World Bank, continuing for just a moment, the general question before we get down to your particular regions, where does the World Bank obtain its funds?

KOCH-WESER: We have two programmes. One is the traditional programme, called IBRD, where we basically --

LITTLEJOHNS: IBRD, what does that stand for?

KOCH-WESER: That's the International Bank for Reconstruction and Development. These are market-based terms. We fund ourselves in most of the world's capital markets. We unlend these resources with

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a surcharge to cover our administrative expenses and make a profit that we require for good standing in capital markets. Capital subscriptions come from all Member countries now almost one hundred seventy. There's a second programme of soft loans, more recent, but also dating back now for decades, which is called IDA, and that's the International Development Association. These are funds obtained from the development aid budgets from our part one developed Member countries. These are unlent only at a small service charge for the poorest countries in the world, very long terms.

ALDAY: Yes, Mr. Koch-Weser, I wanted to ask you, how does the diversity in economic systems, policies and conflicts between the countries in the Middle East and northern Africa affected their economic and social development?

KOCH-WESER: If you look back to the decade of the '80s, as already mentioned, it has been a decade with very poor economic performance in the Middle East and north Africa. There are some notable exceptions. But generally, countries in the region, the economies, countries in the region on average, have grown only at 0.5 per cent, half a per cent a year. At the same time, population growth has exceeded, in most countries, 3 per cent, on average for the Middle East. So you actually had economic stagnation and decline. If you add to that some of the longer term challenges that face the Middle East, it makes for a formidable development challenge for the '90s. Let me mention some of them. Population growth, more than 3 per cent; in many countries, in most countries of the region, social indicators are worse than social indicators in corresponding countries in other parts of the world. The environment -- most countries in the region face a water crisis and will shortly face a very severe water crisis. The environment is burdened by the fact that the populations of the region are concentrated in the coastal areas and in some river valleys, which

make for air pollution, for example, in Tehran and in Cairo that come close to levels we now experience in Mexico City. There is the problem of governments and efficiency in the public sector. Many of the regulatory interventions of governments, many of the interventions that have stifled private initiative have not leant themselves for rapid development of the private sector, which in the end we believe has to be the engine of growth in the Middle East. What has to be done? Of course, we have to increase -- the governments have to increase economic efficiency, most of all, and they have to develop an agenda that I believe has to consist of bold far-reaching domestic economic reform, that have to consist of increased -- you mentioned the fragmentation in the past in this region -- of increased regional co-operation, and that has to consist of sustained and increased international economic support. Such an agenda -- domestic reform, regional co-operation, international support -- could bring the economies of the Middle East back on a growth path in the '90s that will enhance the social welfare of all its people. There are some examples for that -- I mentioned Morocco and Tunisia, which had satisfactory growth say over the last five years. The other countries, like Egypt, Iran recently, Jordan, which have embarked on far-reaching economic reform -- all this is promising. And if you add to that the fact that with the peace talks under way, with prospects for peace being better in the region I believe than in the past, regional co-operation might also be possible on a scale that we have not seen in the past. One has to start pragmatically, with very specific projects to build that consensus and build that momentum towards co-operation, and I hope the international community will respond accordingly.

LITTLEJOHNS: By "peace talks" you're referring to the Arab-Israeli peace talks?

KOCH-WESER: I refer primarily to those peace talks. But I generally refer to a global situation that has changed markedly all in its impact on the Middle East. In the post-cold war and post-gulf war era, I believe there's hope now to move the economic issues to the top of the agenda and to enhance regional co-operation around those issues.

LESSING: You mention economic issues, but a lot of economic issues are very seriously impacted by something else you mentioned -- population growth. Now, the World Bank, I would assume, can't go to a country and say you've really got to do something about your population growth, but you must have views on this. How do you get these views across to the countries in the region?

KOCH-WESER: Let me first say that in countries where we have a close partnership, a close dialogue on the fundamental issues of development, we indeed do bring population issues in our dialogue at all levels of government to the forefront. In fact, when I visit the region, for example, I have discussions with the leaders in the region on demographic prospects, on the burden that imposes on the economy, the burden that imposes on the role of women, and what can be done about it. I come to the second part of your question. I believe -- and we are engaged all across the Middle East in increased efforts in this area -- that the answer lies in giving much more emphasis to human resource development, in all its aspects in the region. Again, there are very promising developments in some countries. It requires comprehensive reform of basic education systems, extending coverage of primary health care to rural areas, enhance particularly the role of women and the enrollment rates for girls in schools. Experience world-wide shows, that a woman that has received secondary education in addition to a primary education has on average, only three children instead of seven. It's probably the most beneficial investment, beneficial in terms of population

impact, that a country can make - invest in the education of women. We are lending large amounts for education. It's one of the largest sectors over the last twenty years of our lending, billions of dollars have gone into education, health, population lending in the Middle East. And I'm very encouraged by the response I've found among leaders in the region who would like to work with us and others on increasing the emphasis on human resource development. That relates very much also to the short-term issues these countries face, and that comes back to your earlier question on how to mitigate the social cost of adjustment. If countries have to go through painful restructuring of the economy, one has to mitigate the cost for the poorest members of society. And to develop social safety nets, to develop employment programmes, retraining programmes for those who lose their jobs in restructuring of public enterprises, for example, I would include as one important item in developing a comprehensive human resource strategy for the region. So population is very much on the top of the agenda. In fact, in most of our country co-operation programmes, it is one of the three or four central items.

PFAEFFLE: Just to follow up on your previous answer: when you lend money to educational, for educational purposes, are there any strings attached as to what type of education should be dispensed in those countries?

KOCH-WESER: Well, let me explain how we typically approach it. We would do what we call a careful analysis of the entire sector. We would send teams of experts that look at the entire human resource area, that look at what has been done in the past in promoting educational reforms, what the structure of education is -- rural schools being built, rural teachers being paid, is the curricula that they have still suited for the longer term development? And we would develop a programme of action with the

government, which is the government's programme, of course, for reforming curricula, reforming the structure of primary, secondary, tertiary education. The role of the private sector we are thinking through increasingly, how the private sector could contribute in that, and out of that grows then the identification of an investment project. But it has to be part and parcel of an overall package of educational development and reform. Now, are there strings attached? Of course. When we lend for, say, primary education in Egypt, we would want to know whether teachers' salaries are structured in a way that there will be teachers available for rural areas. We would look whether the Ministry of Education has the monitoring capability, the textbooks are there. You might call that conditions, but of course, these are just the preconditions for any successful project, World Bank or government funded.

ALDAY: Yes, Mr. Vice President, the area under your management is still shaped and affected by the gulf crisis. What's the outlook of recovery for the area, compared with other third world countries?

KOCH-WESER: That brings me back to what I would call a reform agenda for the '90s in the region. Let me give you the main elements and talk about the area in the gulf, but also the region more generally. First of all, macro-economic stabilization and reform. You have to have in many countries more in the past stability in terms of bringing the fiscal deficits down, a more stable exchange rate system, more liberalized trade, exchange rate, exchange rate regime to make economies more efficient and competitive. These are domestic reforms that have to be undertaken. They are well known under the rubric of what the IMF and the World Bank support in most countries of the world, adjustment and reform programmes. But it also requires countries to undertake some far-reaching reform to address the long term. We talked about the human

resources area already. I think water and environment, to assure sustainable agricultural development, is a very important second long term issue. We have worked with many of the countries in the region on comprehensive environmental action plans -- Tunisia, Morocco, Egypt, for example, that would then receive funding domestically and from international sources. That's the domestic economic agenda, as I would call it. I would add here, though, that it also has to -- we have to ensure, governments have to ensure that what governments do to not stifle the initiative of the private sector is very important, and what governments can do to vastly increase the efficiency of public services is also very important. Take Egypt, for example, which has a long way to go to make its civil service as efficient and contributing better to economic growth and well being of the country. Then there is the regional agenda. I believe that the region in the post-Gulf war era should find ways of increasing labour flows between countries: there are capital-rich and there are labour-rich countries in the region. There should be with domestic policies that are outlined, more incentive for private investors from the gulf, for example, to invest in the capital-sparse countries of the region. And there will be, as there has been on a very substantial scale in the past, official development aid given by the capital surplus countries of the region to the labour surplus and poorer countries of the region. And then there are regional projects. I think that's an important new item. And in the multilateral peace talks and other fora, there might be increasing opportunities for finding a consensus around undertaking joint investment projects: examples such as highways that would link countries, power grids, gas resources from Algeria that could be supplied to other countries; human resource development jointly, centres of excellence that would be shared by the region for higher education and learning; the opportunities for harmonizing trade regimes -- a whole host of regional programmes and projects that could be undertaken. And I think beyond the benefit

due to economies of scale, et cetera, that these projects would yield, it would also build a consensus that these are plus-some gains and would reinforce attempts for negotiating a more peaceful future.

LITTLEJOHNS: The programme is **WORLD CHRONICLE**, our guest is Caio Koch-Weser, Vice President of the World Bank for the Middle East and North Africa.

LESSING: You talked about water projects and regional projects: could you give us some specific examples of projects which the bank is currently financing or you plan to finance?

KOCH-WESER: Yes. We have not done much yet -- that's why I say it's a new item on the agenda -- by way of financing projects that are trans-boundary. But let me give you some examples of ideas. Let me start with the environment. If you look at the Gulf of Aqaba, for example, there are problems of long-term stabilization of the water environment. These are ecologically very delicate balances. And of course, like in many other parts of the world, they suffer from marine pollution, oil spillages, et cetera. Port clean-ups are required. One project could be to have all the countries in the Gulf of Aqaba join in joint projects to clean up the Gulf of Aqaba. Similar projects are already being undertaken, studies for future projects, in the Mediterranean at large. The World Bank, together with European Investment Bank and UNDP has a large programme called METEP, it's an environmental programme for the Mediterranean, to conduct studies of all the countries on the northern rim, which are the southern European members of the European Community, and the northern African and Middle Eastern countries joined hands in undertaking these studies, which will now lead in the second phase to investment to clean up the Mediterranean. It's a long-term proposition.

LITTLEJOHNS: Is the Mediterranean in such terrible shape? Does it need badly cleaning up?

KOCH-WESER: Indeed. If you visit some of southern European beaches, or when you see the pollution of some of the ports, when you see how much of the oil tanker traffic goes through the Mediterranean, it's indeed a very delicate balance and enormous challenge.

LITTLEJOHNS: And World Bank is financing this clean-up?

KOCH-WESER: We are, as I said, financing studies, together with others, to design projects that could lead to a long-term clean-up. It's a long-term proposition. One should have no illusions that this can be done quickly, but it's a very important problem to deal with strongly. Water, you mentioned water. Many of the aquifers in northern Africa are aquifers below the desert that cross boundaries. One will have to put together projects that conserve these water resources, that distribute and manage these limited water resources for agricultural development in the future, that again are international, that are regional projects. There is, of course, the issue of the Jordan River water -- politically very delicate. But I would hope that at some future date the concerned parties can get together and deal with these scarce water resources and their best management jointly. There are many other projects I mentioned: in transport, in energy, in human resources that could be undertaken. But it's an innovation, it's a new item on the agenda which I will call this triangle of domestic reform, regional co-operation, and international support for enhanced growth in the '90s.

PFAEFFLE: Mr. Koch-Weser, the six countries of the Gulf Co-operation Council recently set up a $7 billion development fund for north Africa. How is that money being used? Are there political

considerations? I suppose that some of the gulf countries weren't too happy about the political support countries like Tunisia gave Saddam Hussein. Does that not have any impact on how the money's being spent?

KOCH-WESER: I cannot comment for the GCC, for the Gulf Co-operation Council, on the political considerations that might or might not --

PFAEFFLE: I mention it because it's in the report.

KOCH-WESER: -- The allocation of funds. But we of course very much welcome the fact that there is enhanced willingness to contribute to the financing of some of the reform programmes in the countries of north Africa and the Middle East. To my knowledge, that fund is not yet in being. It is -- the arrangements are being finalized. It fits this agenda I outlined extremely well, because as far as I understand, it will support primarily countries that are undertaking the bold domestic economic and social reforms that I have talked about. So there is in a sense some conditionality. And I think that leads me to one point I would like to make on burden sharing. I think in this agenda for the '90s, for the Middle East, the concept of burden sharing is extremely important. What do I mean by that? One is of course that countries themselves, the reforming countries, allocate more resource, increase savings, allocate more resources to efficient development. The countries in the region, at least six countries spend more than 10 per cent of their GDP on military expenditures. I hope this enhanced prospect for peace, a share of that can be redirected towards economic and social investment. There is hope with better reform for the private sector to increase investment, domestic and foreign private sector. When it comes to the countries of the region, I would seek programmes like the special fund that you mentioned, supporting

reform in these countries as their part of the burden sharing, allowing labour flows, and enhancing also private capital flows to these countries. And when it comes to the international community at large, I would hope that existing aid programmes, programmes for debt relief, can be further strengthened. International support can come by way of foreign direct investment. European Community is very close, so to speak on the doorstep of the Middle East, and there is a long-term interest in stable, rapid development in the Middle East on that part. So official aid, debt relief, and private investment from the international community at large is the third leg in this agenda. So we welcome very much the creation of this fund, but how the resources are being used and who benefits, I understand is still being worked out.

ALDAY: Yes, Mr. Koch-Weser, what has been the role of the World Bank in the reconstruction of some countries in the area let's say of Lebanon or Iran, and what are the chances of Iraq and Kuwait to get aid from the World Bank in the near future?

KOCH-WESER: Yes. Well, in the case of Kuwait, Kuwait, although it suffered, of course, economically, is a rich country, and under our eligibility criteria, Kuwait would not be eligible for World Bank lending. We had some discussions with Kuwait on technical assistance possibilities. We have a programme of technical co-operation with the oil rich countries in the Middle East, Saudi Arabia, for example, where we work together on a fully reimbursed basis on some of the technical issues of enhancing institutions, increasing the efficiency of some institutions. So there will be no lending to Kuwait. In the case of Iraq, although we are in contact and discussing, I don't see prospects for a productive economic partnership in the near term.

PFAEFFLE: Why not?

KOCH-WESER: In the case of Iran, we are building up a programme -- as I mentioned earlier, Iran has undertaken far-reaching economic reform. It's still a very difficult proposition given the high distortion of the many years of war in the economy. But I see prospects for funding infrastructure, agriculture, human resource development in Iran in the coming years that would help among others the reconstruction effort that you mentioned. In the case of Lebanon, we have close -- we had a lot of discussion on what we might do by way of supporting the emergency reconstruction effort. Several agencies, the UN system, and we have identified an investment need of at least $1.5 billion dollars over three years in areas such as telecommunications, power, water, sewerage, housing. But of course we need a stable economic environment and a stable institutional mechanism, which is now being addressed by the government, which would ensure successful implementation of these programmes. Once a macroeconomic stabilization programme is in place, and the institutional set-up has been developed, we would indeed start funding reconstruction efforts in Lebanon, and we are working closely with the government on that.

LITTLEJOHNS: In the few seconds we have left, how much money are you spending in the region?

KOCH-WESER: Well, it varies from year to year. There is no reason why we could not very -- in a very major way expand our lending volume to the region. Last year it was about $1.5 billion dollars in loans. It has been higher than that before, and I am sure, with such a reform agenda, it could be substantially higher in the future.

LITTLEJOHNS: Mr. Koch-Weser, that's all the time we have. Thank you for joining us on this edition of **WORLD CHRONICLE.**
Our guest has been Caio Koch-Weser, Vice President of the World Bank

for the Middle East and North Africa. He was interviewed here at United Nations Headquarters in New York by Ricardo Alday, of the Mexican News Agency; Judy Lessing, of Radio New Zealand; and Walter Pfaeffle, of the Kuwait News Agency.

I'm Michael Littlejohns. Thank you for joining us. We invite you to be with us for the next edition of **WORLD CHRONICLE**.

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